MULTIMEDIA UNIVERSITY

STUDENT IDENTIFICATION NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 1, 2016/2017

BBF 2644 – BANK MANAGEMENT

(All sections / Groups)

20 OCTOBER 2016
2.30 p.m – 5.30 p.m
(3 Hours)

INSTRUCTIONS TO STUDENTS

1. This Question paper consists of **THREE (3)** pages with **FIVE (5)** questions.
2. Answer all the questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write your answer in the Answer Booklet provided.

QUESTION 1

Bank Negara Malaysia (BNM) announced the reduction of the overnight policy rate (OPR) by 25 basis points to 3 percent at the Monetary Policy Committee (MPC) meeting on July 13, 2016.

a) Explain what is OPR? (4 marks)

b) Briefly discuss why did BNM reduced the OPR? (6 marks)

c) Explain what are the impacts to the banks and consumers from the OPR cuts? (10 marks)

(Total: 20 marks)

QUESTION 2

a) Basel Committee on Banking Supervision has developed a comprehensive global regulatory framework in 2010. Briefly discuss the challenges of the regulatory Capital Requirement in the BASEL III framework. (10 marks)

b) At the beginning of the year, a depository institution starts with allowance for loan losses of RM2.48 million, charges off worthless loans of RM1.2 million during the year, recovers RM0.12 million on loans previously charged off and charges current income for a RM1.02 million provision for loan losses. Calculate the allowance for loan losses at the end of the year. (5 marks)

c) Suppose that a bank holds cash in its vault of RM2.5 million, short-term government securities of RM22.4 million, privately issued commercial paper of RM7.2 million, deposits at the Federal Reserve banks of RM18.5 million, cash items in the process of collection of RM0.6 million, and deposits placed with other banks of RM16.4 million. Calculate how much in primary reserves does this bank hold? (5 marks)

(Total: 20 marks)

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QUESTION 3

a) The following information provides the Morgan Bank's balance sheet data:

Bank Assets		Bank Liabilities	
Items	RM	Items	RM
Vault cash	2,500	Hot Money	8,000
Standby credit agreement	1,000	Deposits	4,000
Residential Mortgage Loans	2,700	Subordinated Debt	150
Allowance for Loan Loss	(300)	Common Stock	200
Collateralized Mortgage Obligation	2,500	Surplus	700
Commercial Loans	1,500	Retained Earnings	450
Credit Card Loans	2,100		
Municipal Bonds (tax-exempted)	1,500		
Total	RM13,500		RM13,500

(i) Measure the Tier-1 capital of Morgan Bank. (2 marks)

(ii) Determine the risk-weighted assets the Morgan Bank have. (10 marks)

b) Discuss what are the THREE (3) primary sources of income from a commercial bank customer's account? In recent banking environment, indicate whether each is growing or declining in use and justify why. (8 marks)

(Total: 20 marks)

QUESTION 4

a) The following information provide the OCBA Bank's balance sheet data:

Assets	Market Value (RM)	Rate (%)	Dur. (years)	Liabilities & Equity	Market Value (RM)	Rate (%)	Dur. (years)
Cash	150			1-yr. Time deposit	620	5	1.00
3-yr Commercial loan	700	12	2.69	3-yr. Certificate of deposit	300	7	2.81
5-yr Treasury bond	200	8	4.99	Equity	130		
Total	RM1,050			Total	RM1,050		

(i) Measure the weighted average duration of assets and liabilities. (8 marks)

(ii) Calculate the duration gap model to measure the interest rate risk. (4 marks)

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b) Malaysia's financial industry experienced a new era and innovation on the regulatory and supervisory framework on 30 June 2013. Discuss why the new innovation of these TWO (2) new acts is very significant for Malaysia financial institutions? (8 marks)

(Total: 20 marks)

QUESTION 5

a) Banking institutions consistently have never-ending liquidity management issues. Briefly discuss. (10 marks)

b) Briefly explain why interest-sensitive gap management hedging tool is not effective enough to protect the net interest margin when compared with duration gap management. (10 marks)

(Total: 20 marks)

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